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SPECIAL REPORT

US INVESTMENTS IN EUROPE

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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16 April 1965

US INVESTMENTS IN EUROPE

The so-called invasion of Western Europe by American capital has developed over the past year into a major debating point for Gaullist partisans of European "independence." The Gaullist case draws on economic arguments which are endorsed in certain West German business circles, as well as other influential quarters ordinarily well-disposed to US viewpoints. In most of Western Europe, sentiment in favor of American investments still more than outweighs opposing attitudes. Except in France, stringent restrictions on American investments are not in prospect. Nevertheless the hue and cry about American investments seems to be leading Europeans generally to look for some way of dealing with the issue through united action. Accordingly Common Market institutions will probably be called on to play a leading role in finding a solution.

Scope of the Problem

The focus of European concern is not on American short-term loans abroad or on purchases of foreign securities by the American public. It is rather on direct investments--the stake in branches, subsidiaries, and other affiliates acquired or established in Europe by US corporations. The value of these direct investments, as carried on corporation balance sheets, was over 10 billion dollars at the close of 1963, according to the most recent authoritative figures; the amount probably comes to 12 billion today. (See Figure 1.)

One of the striking features of the statistics is the growth recorded over recent years. Since 1950, US direct investments in Europe have increased by an average of 15 percent a year. The increase is testimony to the profit opportunities that US companies have seen in Europe's postwar economic resurgence. The statistics attest also to the scramble for position inside the Common Market, where accelerated steps toward customs union and a single tariff wall discriminate progressively against producers outside the Six.

The capital flow is not one way. Total West European holdings of American assets in fact exceed American investments in Europe. Such European companies as Shell, Unilever, Olivetti, Nestle, and British-American Tobacco control or own sizable interests in American affiliates. The Europeans, however, put a comparatively large proportion of their exported

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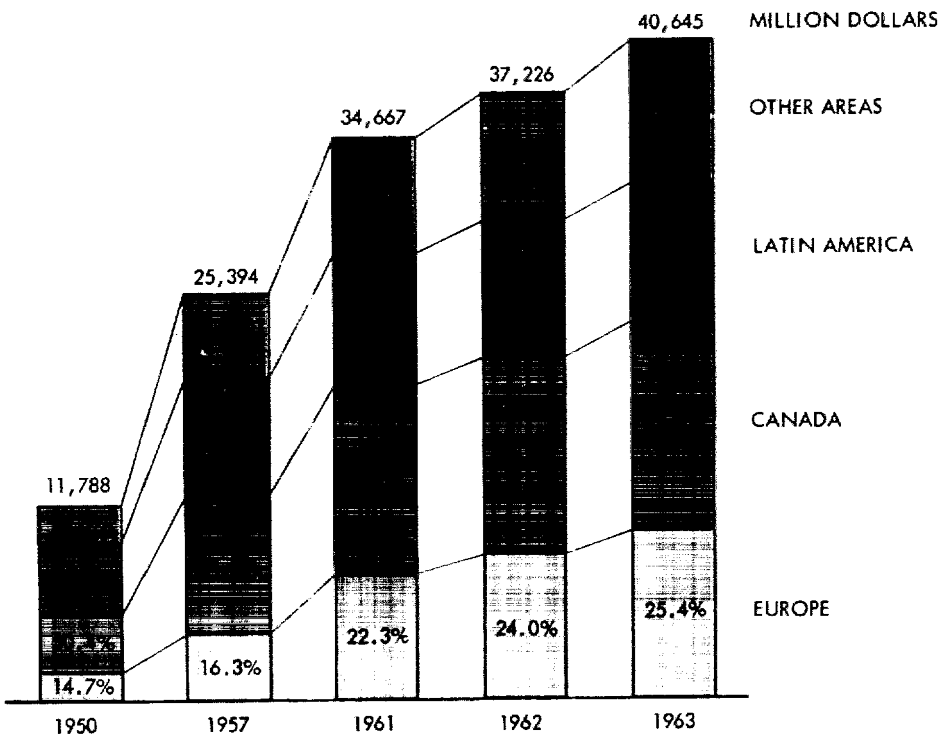
Figure 1

US DIRECT INVESTMENTS ABROAD



Figures within columns represent percent of total amount.

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US DIRECT INVESTMENTS IN EUROPE
(million dollars)

	1950 Amount	1950 %	1957 Amount	1957 %	1961 Amount	1961 %	1962 Amount	1962 %	1963 Amount	1963 %
TOTAL	1,733	100.0	4,151	100.0	7,742	100.0	8,930	100.0	10,351	100.0
United Kingdom	847	48.9	1,974	47.6	3,554	45.9	3,824	42.8	4,216	40.7
Common Market Countries	637	36.8	1,680	40.5	3,104	40.1	3,722	41.7	4,471	43.2
France	217	12.5	464	11.2	860	11.1	1,030	11.5	1,235	11.9
Germany	204	11.8	581	14.0	1,182	15.3	1,476	16.5	1,772	17.1
Italy	63	3.6	252	6.1	491	6.3	554	6.2	668	6.5
Netherlands	84	4.8	191	4.6	309	4.0	376	4.2	445	4.3
Belgium and Luxembourg	69	4.0	192	4.6	262	3.4	286	3.2	351	3.4
Other European Countries	249	14.4	497	12.0	1,084	14.0	1,384	15.5	1,664	16.1

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capital into short-term assets. When they turn to long-term assets, moreover, it is to "portfolio" holdings of US securities. West European direct investments in the US amount to only half the American direct investments in Europe. (See Figure 2.)

The aggregate figures are of less concern to Europeans than the influence of American capital in certain sectors, particularly those involving considerations of national prestige and sensitive security interest. The flow of American direct investments in the Western European countries may come, on the average, to only two percent of the annual total of domestic investment in West European industry. Affiliates of American companies, however, are now producing more than half of the passenger cars in Britain and are important throughout Western Europe in such fields as petroleum refining, chemicals, and electronics.

European government officials consider themselves to be under two major disadvantages in any effort to hold at arm's length such American firms as Ford, General Motors, IBM, Du Pont, and General Electric. One is that the typical European counterparts of these firms are much smaller in size, many of them family owned. A few of them are now in desperate search for the additional capital, technology, and managerial competence needed to stay competitive in markets demanding large-scale production; others are delighted to pull out of the competition entirely if they can do so with a handsome capital gain. The easiest recourse is often to

Figure 2

INVESTMENT POSITION OF THE US IN WESTERN EUROPE, 1963
(million dollars)

Type of US Investment in Western Europe	Amount	Amount	Type of West European Investment in US
Total	24,818	29,876	Total
Short-term assets and claims	2,437	13,639	Short-term and US Government obligations
Long-term	22,371	16,237	Long-term
Direct Investments	10,351	5,491	Direct Investments
Other	12,020 *	10,746	Other

* Of which $5 billion are private investments and $7 billion are long-term credits extended by US Government.

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accept purchase or participation offers of the giant American firms that are so eager to establish industrial bridgeheads in the Common Market and other European areas.

The other disadvantage, elaborated by De Gaulle at some length in his press conference of 4 February, derives from the key position of the dollar in international financial settlements. As the French leader expounded the thesis, the US has incurred a succession of balance-of-payments deficits by reason of its large investments abroad, but these deficits have not had to be settled in gold. Dollars have been acceptable to foreign central banks, which include dollar holdings with gold in the calculation of their monetary reserves. What it comes to, according to one of De Gaulle's close advisers on monetary affairs, is that the US is taking over European industry by paying with dollar credits, in effect with new issuances of IOUs. De Gaulle himself described the process more caustically as a kind of American "expropriation" of the European economy. It is in this context that France has decided not to add further to its stock of dollars but to demand gold. The decision is an element of De Gaulle's strategy to exert all the counter-pressures he can against the tide of American capital flows to Europe.

France

De Gaulle's is not a record of unequivocal hostility to US direct investments. For several years after his return to power in 1958, the French Government actively encouraged foreign investments in France. A campaign to attract US and other investments in 1959 publicized such incentives as grants, loans, subsidies, and tax relief.

The hardening of attitude that became evident by 1962 was in keeping with evolving French concerns about Anglo-Saxon dilution of the "European personality." In that year, the French minister of finance expressed his misgivings to Under Secretary of State Ball about American investments in certain sectors of the French economy. Layoffs of workers by subsidiaries of Remington Rand and General Motors later in the year heightened French concern. Chrysler acquired its majority interest in Simca--France's third largest automobile manufacturer--in January 1963, almost concurrently with De Gaulle's veto of British membership in the Common Market. The conjuncture of events was grist for the Gaullist mill and produced a succession of French press articles alluding to Anglo-Saxon economic penetration in such terms as 'Trojan horses" in Europe.

The Machines Bull affair of 1964 again spotlighted for the French their seeming vulnerabilities to the inroads of American capital. Paris at first turned down General Electric's offer to buy a minority interest in Machines Bull and thus bail the French manufacturer of computers out of its financial straits. Not only was Machines Bull working on defense contracts, but the issue of an independent computer industry was bound up with pride of place in France's ranking among the technologically advanced countries. The search for a "French solution," however, proved unavailing. To provide Machines Bull with the financing and technical competence needed to ensure its position in the competitive computer field, GE was allowed to buy in. The government could insist only on the formation of a separate fully French-owned corporation to carry on the sensitive defense work.

The Machines Bull outcome pointed up the constraints on French freedom of action against American investments. The constraints are decisive when the economic priorities are high enough. Paris is committed, for example, to the development of France's depressed regions, and there have been appreciative French comments on the contribution that a new Libby canning plant will make to revitalizing the economy of southern France.

The French also find themselves bidding for US investments when the alternative seems to be for the Americans to make their capital outlays in other Common Market countries. There was considerable French disappointment at General Motors' recent decision to build a large new automobile plant at Antwerp instead of Strasbourg. GM in Antwerp will hire no French workers, while bringing as much competitive pressure on the French auto industry as would GM in Strasbourg.

If the French sometimes concede the economic advantages of US investment, they are still rather grimly set against "economic colonization." Their policy is to condone US investments that make demonstrably needed contributions of capital and technology but to view with deepest jaundice any investment that merely buys out the French owners of an existing firm. Above all, Paris is on guard against letting US capital win the commanding heights of the French economy, so to speak, by dominating important industrial sectors. The French make much of statistics showing that affiliates of American companies produce 50 percent of the auto tires in France, 70 percent of the sewing machines, 80 percent of the ball bearings, 90 percent of the synthetic rubber. One newspaper, editorializing on the subject in December 1964, expressed the fairly widespread reaction among Frenchmen to such figures: "When an important branch of the economy is effectively dominated by foreign capital, independence is alienated."

West Germany

West Germany attracts more US direct investment than any other Common Market country; the figure at the end of 1963 was $1.8 billion, as compared with $1.2 billion for France. However, Erhard and his top economic advisers are economic liberals in outlook, critical of government interventions in the market, and therefore reluctant to apply official restrictions on international capital flows. Political commitments to close alliance with the US, along with a sense of gratitude for American economic assistance during Germany's postwar hours of need, also suppress inclinations to join forces with De Gaulle.

The Gaullist fuss about American investments had nevertheless had some fallout over Germany. There has been a rash of press stories in recent months about such American incursions as Boeing's acquisition of a third interest in a leading German aircraft manufacturer. Ten of the hundred largest German corporations, it is observed, are wholly owned American subsidiaries, not to mention the companies in which the Americans have majority or substantial minority interests. The word ueberfremdung (foreign saturation) is taking a place in journalistic vernacular to describe American take-overs of German firms.

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cation of his remarks was that De Gaulle was well advised to demand gold instead of taking dollars; and that the French were putting salutary pressure on the US to curb its capital outflow by raising interest rates and taking other such measures in the direction of sounder monetary policy.

German opinion is still generally friendly, but the sniping from critical quarters is having its effect on the political climate. German Government officials, meeting with US Embassy officers in Bonn, have referred to a change in popular psychology which could become a real political problem for them. Quick to disclaim any really serious concern, they have nevertheless asked for cooperation to avoid concentration of investment in certain industries and have suggested that some slowdown in the rate of over-all capital flow might also be in order. 25X6

Italy

Throughout the postwar period, the Italians have given highest priority to the job of catching up with the more developed economies of Europe.

American investment has been welcomed, and affiliates of American companies account for an increasing percentage of the country's outlays for plant and equipment. The figure was less than 1.5 percent in 1959, some 3 percent in 1961, about 4 percent in 1964. In 10 percent of the hundred biggest private companies, Americans have a half interest or more.

This is not to say that Italians are entirely easy about the growing role of American capital. There are names like Fiat with which national prestige is closely bound, and there are occasional expressions of concern about the competitive threat from newly established American factories elsewhere in the Common Market. The Communists capitalize on Italian concern to make their recurrent warnings of American "penetration" on such occasions as the announcement of General Electric's buying into Olivetti. Government officials defer to these sentiments by giving assurances of their watchful eye against investments which could "come to suffocate the Italian economy." Yet, in the main, Italy is still anxious for American capital.

Benelux

The three Benelux countries, too small to frame many economic calculations in terms of national power or self-sufficiency, have international outlooks. Belgium has made the attraction of foreign capital a cardinal principle of development policy. An investment promotion office has been set up in New York. The government offers to meet part of the cost of training workers, grants tax holidays, and provides interest subsidies up to 4 percent of new capital. These subsidies substantially reduce the cost of local borrowing, and perhaps two thirds of American capital outlays in Belgium are financed by local funds instead of adding to the US balance-of-payments deficit.. There are the usual pot shots at American firms from businessmen who complain of upward pressures on wages or otherwise see damage to their particular interests. The general reaction, however, was one of jubilation at General Motor's recent selection of Antwerp for the site of the $100-million auto plant.

In the Netherlands also, expressions of feeling against US investments are only occasional. The Federation of Catholic Employers has spoken out against "distortions" in competitive relationships that result from the entry of American financial giants. There are, in addition, criticisms of the US for not taking strong enough measures to curb capital outflows in order to relieve balance-of-payments pressures. But the prevailing attitudes are still fairly relaxed. The Dutch, after all, have their own interests in some European firms with vast properties abroad (Unilever, Shell, Philips) and cannot afford to be strident about the nationalities of big corporations.

Up to 1962, Luxembourg actively solicited US enterprise.

The recent lessening of demand for American capital resulted from the onset of inflation and labor shortage rather than from any burgeoning anti-Americanism. There are nineteen American companies including Monsanto, Goodyear, and Du Pont--that have established or are about to set up manufacturing facilities in Luxembourg. According to the US Embassy, these companies may within a few years account for 10 percent of Luxembourg's GNP.

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Other European Countries

The other countries, taken altogether, account for a little over 15 percent of US direct investments in Europe. None of them is about to enlist in Gaullist ranks on the issue.

Franco's autarchic economic philosophy and his suspicions of foreign investments are giving way to Spanish interest in getting on with economic development. Sears Roebuck, Chrysler, Gulf, Monsanto, US Steel, Jersey Standard, and Dow Chemical are a few of the American names which figure in recent or projected investments. In Portugal, the Salazar government is also more favorably disposed than it once was to foreign capital.

The Scandinavians give comparatively little press coverage to the subject; it is evidently not that much of an issue for them. The Austrians are more concerned about takeovers by German companies, and [redacted] 25X6 that he likes to see American investment as a counterbalance. The Swiss are taking measures to stem inflows of foreign capital, but theirs is the predominantly monetary concern to dampen inflationary pressures in the country. They would not take too nationalistic a stand against American-owned companies; Swiss firms have invested more in the

US than American companies have in Switzerland.

Spur to European Unity

De Gaulle fully understands that purely national measures against US investments will merely divert American capital to more hospitable places in the Common Market. His doctrinaire disdain for supranationalism notwithstanding, he may be coming in this instance, as in several others, to some reluctant support of solutions tending to strengthen Common Market institutions. In 1962, French Senator Armengaud wrote a letter to the European Economic Commission enlarging on the need to control foreign investments in Europe. Chrysler's purchase of Simca in 1963 occasioned another French impetus toward a European approach; at meetings of Common Market finance ministers in March and again in June, French Minister Giscard d'Estaing urged the desirability of a common policy on foreign investments.

The French have yet to spell out the ingredients of such a policy, but there are several points at which Community interests are obviously touched. One is the problem of state aids to industry, highlighted in recent months by the Belgian offers to Ford and General Motors. The Common Market Treaty prohibits incentives which would tend to "distort" competition, but regulations that could give force to the treaty provisions are still to be worked out.

Public discussion is also turning on the need for Community action to improve European capital markets. The capital markets of the US induce and mobilize savings not only of Americans but of foreigners as well for investment in American companies. In Europe, companies are much more in the nature of family affairs, in part because the arrangements for public subscription to corporate securities are not as fully institutionalized as in America. Under the circumstances, every search by Europeans for new capital constitutes pressure to invite American participation.

Another field for Community action is in the field of technical research and development. Today's competitive advantage of American companies derives in good part from the massive size of American research budgets--subsidized, as many Europeans see it, by lucrative government contracts. The warnings in Europe of technological lag are coupled with exhortations for research budgets that are European rather than national in scale.

The reference is not only to public but also to private research budgets. Following this line of thinking, much recent commentary espouses a gigantism in European business that is linked to the requirement for a "realistic" Community cartel policy. The Patronat Francais (France's equivalent of the National Association of Manufacturers) is a leading exponent of the thesis that mergers of European companies across the national boundary lines is a necessary form of resistance to the American invasion.

This is not a purely business viewpoint but one that has some sympathy in circles associated with the movement toward organic European unity. Jean Monnet, for example, has spoken in favor of larger European units of production, evidently because he feels that eventual political union requires the appropriate economic infrastructure. Vice President Robert Marjolin of the European Economic Commission recently noted his opposition to cartels in virtually the same breath that he affirmed support for "company mergers which will enable European firms to attain the dimensions of their American counterparts."

Likely Developments

In a recent public opinion survey on attitudes toward American investments, a high proportion of those interviewed in six major European countries gave no opinion at all. Even in France, where official feeling is the strongest and press articles are the most critical, more than a quarter of the respondents did not feel deeply enough about the subject to hold an opinion. Among those who did give opinions, only in France was a majority (55 percent) recorded in favor of policies to discourage American investments. In Italy, Britain, and Spain, the majority of those with opinions favored the encouragement of American investments. In West Germany and Austria, sizable proportions favored a policy of laissez faire.

In all the countries, the percentages for and against American investments were substantial. The ambivalence of national attitudes derives from the complexity of European aspirations. On the one hand, there is reluctance to forego some excellent economic growth rates, to which American investments have contributed. On the other hand, the process of economic advance is perhaps putting many firms at a competitive disadvantage against corporate giants from abroad that are better able to finance production for a mass market. The foreign intrusions are a cut to European pride as well as a threat to vested interests; and in these circumstances, protectionist

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sentiment is bound to coexist with arguments favorable to foreign capital.

The "Eurocrats" in Brussels--who are now working on a study of the problem--have their own interest in accelerating regional integration and will be instrumental in the eventual working out of a Community-wide policy of foreign investments. With the diversity of opinion in Europe, the chances are against agreement within the Community to apply discriminatory restrictions on American investments. In all probability the policy that is finally worked out will rather involve positive measures to improve the position of European firms. The measures will include capital market reforms, harmonization of company law, cartel regulations, and encouragement of research and development.

At the national level, France will turn to objectionable discrimination. A backlog of investment applications from American companies is already piling up in the French Ministry of Finance. In the other countries, official attitudes toward American investment will continue to range from warm welcome to hopefulness of voluntary restraint. A few companies like International Telephone and Telegraph have made calculations of adverse publicity and decided to forego several purchases of European firms in the past year. Other American companies are responding to US Government appeals and reconsidering decisions about investing in Europe. Ironically, a worrisome note is now appearing in European commentary regarding the deflationary impact of cutbacks in US investments. A really sharp reduction in the capital flow could well provoke still another chorus of European complaint. (CONFIDENTIAL NO FOREIGN DISSEM)

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